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AAA

Crop Insurance For Wheat Growers

A brief summary of the provisions and proposed operation of the Federal Crop Insurance Act

CROP INSURANCE, which seeks to enable the farmer to have wheat to sell every year whether his crop fails or not, will soon be ready for wheat farmers of the United States.

Title V of the Agricultural Adjustment Act of 1938, known as the Federal Crop Insurance Act, makes crop insurance for wheat available to farmers who want it. It establishes a Federal Crop Insurance Corporation, which will offer wheat farmers insurance on their crop against losses from unavoidable causes such as drought, flood, hail, wind, tornado, insect pests, and plant diseases.

Insurance policies will be offered beginning with the crop for harvest in 1939. Premiums for insurance on the 1939 crop must be paid at the time the farmer gets his policy. The amount of premiums to be paid will depend upon the crop-loss experience both on the farm and for the county in which the farm is located.

All premiums are to be in actual wheat or its cash equivalent, and actual wheat is to be stored by the Corporation to pay losses to farmers. The wheat paid in as premiums will be held by the Corporation in approved storage as a reserve, until paid to farmers as indemnity for crop losses. The administrative expenses and the cost of storage will be paid by the Corporation with funds appropriated by the Government. The net cost of insurance will be borne by the farmers through payment of premiums.

Crop insurance fits into a national agricultural policy of utilizing a part of surplus production to maintain reserves of farm products and to stabilize income of farm producers. It extends to the hazardous business of wheat growing the insurance protection that other businesses long have enjoyed. The need for crop insurance was spectacularly demonstrated by the droughts of 1934 and 1936, but this need has always existed, since farming is one of the most uncertain of all occupations.

While farmers must have good prices to obtain an adequate income, high prices mean nothing to a farmer who has no crop to sell. With his wheat production guaranteed up to a certain number of bushels per acre the insured farmer will have wheat to sell every year.

Insurance Is In Bushels, Not Dollars

An outstanding feature of this insurance plan is that everything is reckoned in terms of wheat. The premium a farmer pays is figured in bushels of wheat. The indemnity he collects for his losses is figured in bushels of wheat. The Federal Crop Insurance Corporation holds its reserves in wheat.

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The plan does not guarantee the farmer a certain price. But it does try to assure him that he will have wheat to put on the market. He will get whatever price the market pays at the time he sells his wheat. It protects him against fluctuations of yield, not of price.

Crop insurance will be available only to wheat growers at first, although if it is successful, it may later be extended to corn, cotton, and other crops.

In several respects, wheat is well adapted to testing the practicability of crop insurance. A subhumid climate prevails over the large areas of the world which produce high-milling quality wheat. This climatic condition makes wheat growing hazardous. Once wheat is sown, crop risks depend largely on natural hazards, and yields are not affected by methods of cultivation as is the case with row crops. Another most important reason for starting with wheat is that available data can be readily used as a basis for crop insurance.

Owner-operators, landlords and tenants, in counties and areas in which a substantial number of farmers take out insurance, may insure production on farms on which soil conservation and other good farming practices are followed. Policy holders who fail to earn A. A. A. wheat payments for a farm because of exceeding wheat allotments will not be eligible for crop insurance for that farm the following year.

For How Much Can A Crop Be Insured?

A wheat farmer can insure his crop for either three-fourths or one-half of the average yield of his farm.

To insure for the full average yield might encourage slovenly farming. Insurance for a percentage yield leaves an incentive to good farming.

Farmers whose loss experience includes a comparatively large number of crop failures may regard a coverage of three-fourths of their average yield as prohibitive in cost. For such farmers a coverage of one-half of their average yield is available at substantially lower premiums.

Who Operates and Pays For The Program?

The program is to be administered by the Federal Crop Insurance Corporation, established under the terms of the Federal Crop Insurance Act. Local administration will be through State and county committees. Thus, as in the case of the Agricultural Adjustment Administration crop-adjustment and soil-conservation programs, farmers will act cooperatively with the assistance of a Federal agency.

The act authorizes an appropriation of $100,000,000 for capital of the Corporation and $6,000,000 a year for administrative and operating costs including storage. The capital provides a reserve upon which the Corporation may draw if heavy crop losses occur before the Corporation, through premiums, has been able to build up reserves sufficient to cover them.

Expenditures for administration and operating costs are considered to be in the interest of the general welfare of the Nation, since the program is designed not only to stabilize wheat growers' income, but also to establish reserve supplies of wheat to meet domestic requirements in case of serious crop failures. Frequent crop failure in the

high-risk areas has necessitated public expenditures for relief, and insurance helps the wheat industry to stabilize its own income.

While the Government helps the farmers to launch and operate an insurance program, the net cost of insurance is borne by the farmers themselves. Premiums must be adequate to meet the cost of indemnifying crop losses.

Where Wheat Premiums Will be Stored

The act authorizes the Corporation to store grain paid in as premiums by farmers. In general, the plan is to store the wheat as near as possible to the point where it is grown.

The wheat so stored will provide a reserve for years of crop failure and will thus assure consumers of a more adequate wheat supply. The amount of wheat which will be stored as premiums will depend upon the number of farmers who take out insurance. It is estimated that the total may range from 50 million to 100 million bushels.

If a large portion of the wheat crop is covered by insurance, the reserves will tend to stabilize the supply and price of wheat. In years of big wheat crops, payment of premiums into the reserves will take some of the surplus from the market. In years of wide crop failures, wheat from the reserves will be put back onto the market.

While this will help stabilize prices, there will always be fluctuations in them. In years of widespread crop failure, when prices are normally higher, farmers as a group will get back most of the wheat they paid in earlier as premiums. Thus they will tend to receive back as indemnities higher-priced wheat than they paid in as premiums.

How Are Coverage and Premiums Determined?

The county committees, through which the Agricultural Adjustment Administration carries out its programs, have in the past acquired and kept record of the annual yields on a large proportion of the farms. Where no records are available for an individual farm the yield can be appraised on the basis of the experience of similar farms and on the basis of the county average.

Premiums are also determined from these yield records, but they are gauged by the variability in the annual yields rather than by the average annual yields. The crop-loss experience for the farm can be figured from the record of annual yields. The average crop-loss experience for wheat by counties has already been determined from sample farms in wheat-producing counties. The premium per acre in bushels that a farmer pays will be the average of the crop-loss experience on his farm and the county crop-loss experience. The farmer with a bad record of crop losses will thus pay a higher premium than one with a good record.

Averaging with the county loss experience will tend to smooth out differences between farms, thus allowing for crop losses due to accidental causes that are no more likely to occur in subsequent years on one farm than on another. For instance, hail may have destroyed a crop for a farmer in one year but his neighbor has as much chance of being hit next time. Or he may have had a shower that helped his crop but the next shower may as likely fall on his neighbor's land. This procedure will still leave substantial differences in premiums among farms to account for differences in ability of farmers and differences in quality of land.

How Are Premiums and Insurance Collected?

While the premium and losses are figured in terms of bushels of wheat, this does not mean that a farmer has to haul actual wheat to his local insurance office to pay his premium, or haul it home when he collects for his losses.

The insured farmer hauls his wheat to market, just as he always does. He may get from the local elevator a storage receipt for the number of bushels he pays as premium. With this storage receipt he can pay his premium at the local insurance office.

Or he may pay his premium by check or in cash, in which case the Corporation will convert the cash into actual wheat by using it to buy wheat at the current market price and storing the actual wheat against the time when losses must be paid. When a loss is paid the insured farmer, if he wishes, can receive cash, which the Corporation may obtain by selling wheat on the market or which it may obtain from cash premiums being received currently.

How Will The Plan Affect The Wheat Market?

One of the first questions asked about crop insurance and the storing of wheat reserves is "What effect will this have on wheat prices and the wheat market?" Most people who ask this question remember the Farm Board's experience in attempting to stabilize the price of wheat.

The crop-insurance plan differs from the Farm Board Program. The wheat reserves cannot be dumped on the market at any time. Wheat stored as reserves will be released only in payment of losses. The amount so released will be small in good crop years and large in years of widespread crop failures. This fact will tend to stabilize both market supplies and market prices.

Another frequent question is whether the insurance Corporation will be active in the wheat market. The only buying and selling which the Corporation is authorized to do under the law is the buying of grain to be stored as insurance reserves when farmers pay their premiums in cash, and the selling of grain for farmers who want crop losses paid in cash rather than in actual wheat. Grain may be sold to prevent deterioration but an equivalent amount must be purchased to replace it. Likewise grain in one location may be sold and replaced by grain bought in a more convenient location.

Insurance Costs and Benefits

A wheat farmer, in considering whether he should insure his crop, wants to compare the costs with the benefits.

If, for example, he could get three-fourths of an average crop every single year, in spite of grasshoppers, drought, or other unavoidable hazards, by sowing approximately ½ bushel more per acre on the best wheat land, 1 to 1½ bushels more per acre on good wheat land, and 2 to 2¾ bushels more per acre in the highest-risk areas, would he be willing to do so?

A farmer cannot be sure of such a crop every year by putting the extra seed wheat in the ground, of course. But he can assure himself such a crop by putting the wheat into insurance premiums.

Farmers interested in applying for this insurance should get in touch with their county agents or with their local Agricultural Adjustment Administration county committeemen.

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